INSTITUTE *of* STATISTICS
OXFORD

Bulletin Vol. 7. *Oct. 13, 1945* *No. 14*

EDITORIAL NOTE.

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THE BULLETIN.

Since October 1940 the BULLETIN of the Institute of Statistics has been published at intervals of 3 weeks, its contents consisting mainly of the results of the Institute's programme of research in war economics. For some time it has been felt that the 3-weekly interval of publication was an inconvenience to subscribers, and the end of the war provides a suitable opportunity to *change to monthly publication.*

The change to a monthly basis, which will take place in January, 1946, will also facilitate certain alterations in the lay-out and contents of the BULLETIN which the end of hostilities makes possible. The size of the page will be increased to allow for better accommodation of Tables.

The lifting of the statistical blackout and the extension of the Institute's research programme will on occasion require lengthier artices which can be more easily presented in the new BULLETIN. Arrangements have been made with leading economists in several European countries to send reports on economic conditions and policies abroad. Another new feature will be an appendix of statistical tables.

The annual subscription will remain unaltered at 22s. 6d. and the price of single copies at 2s. 6d.

PUBLISHED BY BASIL BLACKWELL, OXFORD

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EMPLOYMENT AND NATIONAL INCOME DURING THE WAR.

In the following pages, a general account is given of changes in employment, incomes, consumption and prices, which have been brought about in this country during the war. An estimate is also made of the distribution of the financial ‘war burden’ between wage earners and others.

1. EMPLOYMENT

First, we consider the changes that have taken place, between 1938 and 1944, in the number of insured persons employed in industry. The estimated number of persons insured against unemployment under the General, Special or Agricultural Schemes,[1] in the first week of July, are shown in Table I. It should be noted that all the figures in this Table refer to persons in the United Kingdom, aged 14 and over. The first line shows the numbers actually insured at the time of the annual exchange of cards. Owing to changes in the scope of insurance, certain adjustments were necessary in order to obtain a continuous series of comparable figures. From September 1940, unemployment insurance was extended to include non-manual workers earning between £250 and £420 a year, estimated to number 364,500 in July 1941. Also, women over 60 ceased to be insurable against unemployment from July 1940. After adjusting the figures for these two changes,[2] the index number shown in the second line is obtained. From April 1942 women employed part-time[3] were exempted from unemployment insurance; the numbers so employed in previous years must have been comparatively small, so that this index effectively represents the numbers insured against unemployment in July of each year, excluding part-time workers and after eliminating changes in the scope of insurance.

For the purpose of comparing estimates of national income with changes in employment, it would be useful to know the average number of insured persons in employment throughout each year, but these numbers are not available. Estimates were therefore made of the average number of insured persons in each year by interpolating from the July figures ;[4] the results, expressed as index numbers, are shown in

[1] The numbers insured against unemployment in the years 1940 to 1944 have been kindly supplied by, and are quoted by permission of, the Ministry of Labour. Figures for the previous years were published in the *Ministry of Labour Gazette.*

[2] Index numbers before and after each change were joined by the chain method ; in this way, it was implicitly assumed, for instance, that the proportion of non-manual workers earning between £250 and £420 p.a. was constant from July, 1941 onwards, the actual numbers after this date not being available.

[3] *i.e.* for not more than 30 hours a week.

[4] If n_1, n_2, n_3, are the numbers insured at the beginning of July, in successive years, using linear interpolation between these dates, the average number in the second year is given by $\frac{1}{8}$ $(6n_2 + n_1 + n_3)$.

TABLE I.

INSURED PERSONS, AGED 14 AND OVER, IN THE UNITED KINGDOM. GENERAL, SPECIAL AND AGRICULTURAL SCHEMES.

	1938	1939	1940	1941	1942	1943	1944
1. Number insured in July[1] (ooo's)	15,742.85	15,898.3	15,121.75	15,240.2	15,406.5	15,002.5	14,514.3
2. Index of No. insured in July[2]...	100	101.0	96.3	94.7	95.8	93.0	90.2
3. Index of av. No. insured in year[2]	100	100.3	96.7	95.1	95.4	93.2	90.6
4. Index of average No. insured employed[2]	100	102.5	102.4	104.9	106.7	104.7	102.0
5. Do. including part-time workers[3]	...	...	...	...	108	...	...
6. Index from insurance conts.[2]...	100	102	100½	105	106	101½	
7. Index of working time ...	100	101½	105	107	109	107½	104½
8. Index of volume of employment (5×7)	100	104	107½	112	117½	115½	109½

[1] Actual numbers, unadjusted for changes in the scope of insurance.
[2] Adjusted for changes in the scope of insurance, but not for part-time workers.
[3] Including two part-time workers as equivalent to one full-time worker.

TABLE II.

NUMBERS OF MALES AGED 14-64 AND FEMALES AGED 14-59 EMPLOYED IN GT. BRITAIN.

(mid-year figures, in thousands).

	1938	1939	1941	1942	1943	1944
Males 14-64 employed in Industry ...		13,086	11,520	10,992	10,438	10,169
Females 14-59[1] ,, ,, ,,		4,837	5,848	6,502	6,706	6,597
TOTAL (above groups)	17,400	17,923	17,368	17,494	17,144	16,766
Do. expressed as index numbers ...	100	102.7	99.5	100.3	98.3	96.1
Men in Armed Forces[2]	400	477	3,271	3,785	4,284	4,502
Women in Auxiliary Services ...	—	—	103	307	461	467
Full-time Civil Defence (M. & F.) ...	—	80	383	384	323	281
TOTAL in Forces, Auxiliary Services and full-time Civil Defence ...	400	557	3,757	4,476	5,068	5,250
TOTAL employed in Industry, Forces, Civil Defence, etc...	17,800	18,480	21,125	21,970	22,212	22,016
Do. expressed as index numbers ...	100	104	119	123	125	124

[1] Excluding Domestic Servants; including women employed part-time, two counted as one.
[2] Excluding prisoners and missing.

line 3 of Table I. The average numbers of insured persons who were wholly unemployed (including casuals) or temporarily stopped, which are ascertained once a month, were then subtracted from the average numbers insured, in order to obtain estimates of the average numbers of insured persons in employment. Adjustments were made for the classes of domestic servants which were brought into insurance in April 1938, and for a minor change in the method of counting unemployed men at Government training centres,[1] as well as for the two changes in the scope of insurance, mentioned above.[2] Further, since the numbers of insured persons unemployed, after August 1940, are available for Great Britain but not for the United Kingdom, it was assumed that the number of unemployed persons in Northern Ireland, relatively to the number in Great Britain, remained constant after this date. Since the number in question was then small in relation to the total number employed (about 0.6%), and must have subsequently declined, no substantial error could thus have been introduced. The estimated average numbers of insured persons employed, not including part-time women, are shown in the form of index numbers in line 4 of Table I. The estimated average number of insured persons in employment in 1938, corresponding to the scope of unemployment insurance in July of that year, was 13,873,500.

After making a rough adjustment for women employed part-time, who numbered about 300,000 in mid-1942 and 900,000 in mid-1944[3] and counting 2 part-time workers as equivalent to one full-time worker, the final index number, shown in line 5, is obtained. Line 6 shows the index number which was derived from employees' contributions to unemployment insurance,[4] which hitherto provided the only means of estimating war-time changes in the number of insured persons employed; the index shown here is not adjusted for part-time women and may be compared, therefore, with the index in line 4.

These two series would not be expected to give exactly the same results, for several reasons:

(i) As mentioned above, the index in line 4 does not refer exactly to the average number of insured persons employed (the average number insured were estimated by interpolation and the average numbers unemployed were based on figures relating to a particular day in each month).

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[1] See *Ministry of Labour Gazette*, 1940, p. 223.

[2] It was assumed that there was no unemployment among non-manual workers earning between £250 and £420 a year. Continuity in the insurance figures is also disturbed by the fact that, in a period of rising incomes, persons who were insured at one date may not, if their incomes increase beyond the upper limit, be insurable at a later date. This would have made the index numbers, if anything, slightly too low.

[3] The figures refer to Great Britain. See Sir Godfrey Ince, *Mobilisation of Man-Power in Great Britain for the Second Great War*, Manchester Statistical Society, 1945. It is not clear why the proportion of part-time women workers appears to have been much less in the industries covered by the Ministry of Labour earnings enquiries.

[4] For the method of construction, see BULLETIN, Vol. 3, No. 13, p. 294, and for the later figures, BULLETIN, Vol. 5, No. 13, p. 217, and Vol. 6, No. 10, p. 159. The effects of changes in the rates of contribution and in the scope of insurance were eliminated.

(ii) The index derived from insurance contributions does not allow for changes in the proportions belonging to different sex and age groups, which pay varying contributions; it appears, however, from the data relating to insured persons (employed and unemployed) that such changes would have caused only a very slight reduction in this index (by not more than 0.5% in 1943).

(iii.) Agriculture was not included in the index based on contributions and as the number of women employed in agriculture has risen considerably during the war, this index would be slightly too low (by not more than 1% in 1943).

(iv.) Persons temporarily stopped for only part of a week, who are not included in line 4, would continue to pay contributions.

These reasons could probably explain the differences between the two series, which agree very closely for 3 of the 5 years, and differ by not more than 3% in the other two years. The results appear to justify the method which was previously used.

The index relating to insured persons employed (line 5 of Table I) will be used in subsequent analysis as indicating changes in the number of wage earners employed. Insured persons include small salary earners, but do not include most domestic servants, or men over 65 and women over 60. It is estimated[1] that the number of persons over these ages in industrial employment in Great Britain increased, during the war, by over 400,000; the number of persons employed as domestic servants was probably reduced by a roughly similar amount, so that these two factors approximately cancel each other, while any change which may have occurred in the relative number of salary earners with less than £420 a year could have had only a slight effect on the index.

There is, however, a further qualification, the precise effect of which cannot be estimated. During the war, the number of permanent employees of the crown who are not insurable against unemployment, has declined, while the number of temporary employees who are insurable, has increased. To the extent that the former have been substituted for the latter, the index number overstates the increase in the numbers employed.

An estimate was also required of the increase in average hours worked. This was based on data obtained from the Ministry of Labour enquiries into earnings and hours of labour in mining (except coal), manufacturing and building industries, supplemented by information relating to the average number of shifts worked by coal miners.[2] The resulting index is shown in line 7 of Table I and, when multiplied by the index of the average numbers employed (line 5), provides an estimate of changes in the volume of employment (line 8).

An idea of the total mobilisation of man-power, in industry and the Forces, is provided by figures which have been made available for Great Britain[3] (but, oddly enough, not for the United Kingdom), and which are shown in Table II. Comparison with Table I shows that the number of insured persons employed has increased relatively to the total number of persons employed in industry; the number of persons employed but not insured must have declined considerably. This is partly explained by the substitution of permanent for temporary employees of the crown, referred to above. The total number of persons employed in industry, the Forces, auxiliary services and full-time civil defence,[1] at the peak, was 25% greater than in 1938.

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[1] Sir Godfrey Ince, op. cit.

[2] *Statistical Digest*, 1944, published by the Ministry of Fuel and Power, (Cmd. 6639).

[3] See *Statistics relating to the War Effort of the United Kingdom* (Cmd. 6564) and Table 12 of the White Paper on National Income (Cmd. 6623). The number in the Forces in 1938 was indirectly estimated from their total pay and allowances.

2. CONSUMPTION AND PRICES

Next we consider changes between 1938 and 1944 in consumption and prices, for which estimates are given in the latest White Paper on War Finance and National Income (Cmd. 6623). For the main categories of expenditure, Table III shows changes in consumption (in real terms) and in market prices (including the effects of indirect taxes and subsidies). The data relate (as far as possible) to expenditure out of personal incomes. The figures for individual categories relate to purchases in the United Kingdom, including those of tourists and Dominion and Allied Troops and excluding expenditure abroad of British tourists and members of the armed forces. The final totals, however, are adjusted so as to relate to purchases out of British incomes.

Income in kind received by the forces[2] is also included in the total, but not in the separate groups. Thus the decline in food consumption, shown in Table III, is partly the result of the gradual increase in the number of troops.

The figures relating to beer consumption, given in the White Paper, are reckoned in terms of bulk barrels. In order to eliminate the effects of dilution, it is necessary to reckon the consumption of beer in terms of standard barrels[3] and this is also more consistent with the procedure adopted for other goods, where ' as far as possible and in nearly all cases of merchandise sales the value of expenditure at 1938 prices takes account of the changed quality of the goods sold ' (Cmd. 6623, p. 27). Standard barrels have accordingly been used in calculating the index numbers shown in Table III; this affects the prices and consumption of beer as well as of all goods combined.[4] Since in many cases it must have been impossible to make full allowance for changes in quality, it may be assumed that more correct index numbers would show greater increases in price, and correspondingly larger reductions in consumption, than are indicated by the present estimates.[5]

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[1] Excluding domestic servants.

[2] This is stated to include food and clothing only. Housing and travel met at government expense are apparently excluded from both income and expenditure. It is assumed that the price index for all other goods and services can be applied to income received in kind.

[3] Expenditure on beer in terms of standard barrels at 1938 prices, according to information kindly supplied by the Central Statistical Office, was £ million : 180 186, 179, 189, 180, 184, 194 in the years 1938 to 1944 respectively.

[4] The price index of beer is raised, through this adjustment, by about 35 points and the price index of all items combined by about 1½ points.

[5] It is interesting to note that earlier estimates of the consumption of ' other alcohol ' (spirits and wines), which were indirectly derived from the yield of customs and excise duties, agree closely with the official estimates now available, except for 1941. The index numbers obtained by this method were 101, 94, 81, 76 (1938=100) for the years 1939 to 1942 respectively. *cf.* BULLETIN Vol. 5, No. 10, pp. 162—5.

Table III.

Index Numbers of Personal Consumption and Market Prices.

	1939	1940	1941	1942	1943	1944
	Index Numbers of Consumption (1938=100)					
Food	100.9	85.5	78.1	82.5	77.9	82.8
Beer (standard barrels) ...	103.3	99.4	105.0	100.0	102.2	107.8
Other Alcohol	103.4	93.2	94.3	76.1	75.0	68.2
Cigarettes	104.2	103.4	114.6	120.8	120.8	121.5
Other Tobacco	100.0	93.8	100.0	100.0	90.6	87.5
All Tobacco	103.4	101.7	111.9	117.0	115.3	115.3
Rent	102.9	103.5	102.4	101.2	101.0	100.8
Fuel and light	101.0	102.6	103.1	101.0	95.3	95.3
Furniture	94.7	69.1	46.1	31.6	23.7	19.7
Hardware	91.5	72.0	54.9	40.2	35.4	35.4
Footwear	104.1	93.2	79.5	76.7	72.6	72.6
Men's and boys' wear ...	100.0	81.1	55.1	54.3	44.9	54.3
Women's and infants' wear	98.0	81.7	59.8	60.2	55.7	62.2
All clothing	99.6	83.4	61.7	61.2	55.4	61.7
Travel	92.3	57.7	59.2	63.4	65.5	65.8
Services	99.3	86.8	79.4	74.6	71.1	71.1
Other goods	100.7	93.2	80.4	70.0	70.7	73.2
Total Consumption[1]						
Index based on market prices	100.4	88.9	82.4	81.3	79.4	81.9
Index based on factor prices	100.1	87.9	80.5	79.7	77.0	79.8
	Index Numbers of Market Prices (1938=100)					
Food	102.5	120.1	133.7	132.6	134.3	134.5
Beer (standard barrels) ...	104.8	141.3	168.8	207.8	232.6	235.6
Other Alcohol	103.3	122.0	139.8	180.6	209.1	216.7
Cigarettes	112.0	144.3	160.0	197.1	236.8	244.0
Other Tobacco	112.5	156.7	171.9	225.0	272.4	282.1
All Tobacco	112.1	146.4	161.9	201.5	241.9	249.3
Rent	101.0	102.4	102.4	102.6	102.4	102.6
Fuel and light	101.0	111.7	118.2	122.2	126.8	133.3
Furniture	101.4	132.4	182.9	237.5	230.6	226.7
Hardware	102.7	123.7	153.3	181.8	193.1	193.1
Footwear	102.6	132.4	156.9	173.2	164.2	169.8
Men's and boys' wear ...	103.2	133.0	165.7	178.3	177.2	181.2
Women's and infants' wear	103.3	133.8	166.7	180.4	175.9	182.4
All clothing	103.1	133.3	164.4	178.4	173.7	179.6
Travel	100.4	110.4	119.0	118.9	119.4	119.3
Services	100.4	114.6	128.0	137.8	147.1	152.4
Other goods	101.4	113.8	136.4	153.1	157.1	158.5
Total[1]						
Index of market prices ...	102.3	119.8	135.3	145.4	151.1	153.4
Index of factor prices ...	101.7	118.6	131.3	137.6	143.0	145.4

[1] Including income in kind of forces and adjustment to correspond with expenditure out of British incomes. Beer reckoned in standard barrels.

Index numbers of consumption and prices of all goods and services combined are affected by the weights which are applied to the constituent items. Of the two index numbers of total consumption, shown in Table III, one is the result of combining different items according to their market prices (including the effects of indirect taxes and subsidies) and the other is the result of using factor prices (excluding indirect taxes and subsidies) as weights. It can be seen that the former index is slightly higher than the latter, one showing a fall in consumption of about 18%, and the other of about 20%, between 1938 and 1944. This is because items which are subject to indirect taxation are given greater weight when valued at market prices than when valued at factor cost, and on the whole the consumption of these items has increased, relatively to that of most other goods. From the consumer's point of view, the index of consumption based on market prices is more appropriate; when considering the factors engaged in production, the index based on factor prices is more appropriate.[1]

The results are also influenced by changes in the distribution of expenditure, the effects of which on the indices of market prices of all consumption goods are indicated by the three series, shown in lines 4, 5 and 6 of Table IV. If 1938 weights are applied, in all years, to the main groups of expenditure distinguished in the White Paper,[2] the series shown in line 4 is obtained; if the price index for a given year is calculated on the basis of weights relating to the same year, the series shown in line 5 is obtained; if the weights are based on the average quantities consumed in 1938, and in the given year, the series shown in line 6 is obtained.[3] Since relative changes in consumption have been negatively correlated with relative changes in price (groups which, in general, have shown the greatest reductions in consumption having also shown the greatest increases in price and vice versa), the use of 1938 weights results in higher price indices than the use of weights in later years.

The index of total consumption based on market prices, shown in Table III, is indirectly obtained from the market price index based on average weights. The index of factor prices and the corresponding index of consumption, shown in the same table, are apparently based on Fisher's 'Ideal' formula, which is the geometric mean of the indices resulting from the use of weights in the base year and in the current year.[4]

3. The Cost of Living of the Working-Class

The cost of living index published by the Ministry of Labour, according to the official description, shows 'the average percentage increase in the cost of maintaining unchanged the standard of living prevailing in working-class families prior to August 1914.' During recent years, this index has lost its representative character; in particular, goods of which the prices are subsidised are over-weighted and goods which are subject to indirect taxation are very inadequately represented (tobacco having a weight of only 0.8% and drink being completely excluded). During the

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[1] It is not permissible to use the latter (as in the London and Cambridge Economic Service Bulletin, April, 1945, p. 33) in order to obtain an index of market prices.

[2] If separate data were available for all the items within each group, different results might have been obtained.

[3] Writing p_0 and q_0 for prices and quantities in 1938, and p_1 and q_1 for prices and quantities in the given year, the formulae are respectively :

$$\frac{\Sigma\, p_1 q_0}{\Sigma\, p_0 q_0} \text{ (line 5) ; } \quad \frac{\Sigma\, p_1 q_1}{\Sigma\, p_0 q_1} \text{ (line 4) ; } \quad \frac{\Sigma\, p_1 (q_0+q_1)}{\Sigma\, p_0 (q_0+q_1)} \text{ (line 6).}$$

Reasons for preferring the last formula are given by Professor Bowley, *Economic Journal*, 1928, p. 216.

[4] The two index numbers shown here are based on figures given in the White Paper (Table 14), but include an adjustment for beer (see above).

war, attempts have been made, admittedly with incomplete data, to calculate a revised index of changes in the working-class cost of living, and the results, which were published in this BULLETIN,[1] are shown in line 2 of Table IV.

A further estimate can now be made, using the price indices shown in Table III. The weights applied to these indices were taken from the Ministry of Labour enquiry into the family budgets of industrial workers,[2] but in the cases of drink, tobacco and coal the family budget data[3] were not acceptable, and figures derived from an independent source were substituted. The weights used (in percentages) were as follows:

Food	39.0	Fuel & Light	6.6	Rent	12.4	Household goods	0.7
Drink	3.5	Clothing	9.3	Services	11.8	Other goods	6.4
Tobacco	5.1	Travel	2.6	Furniture	2.6	TOTAL	100.0

The results of applying these weights to the price indices shown in Table III (the price index for beer was used for all drink) are given in line 3 of Table IV. Lines 4 and 6 in this Table show the effects on the general market price index of different systems of weighting, which were discussed above, while lines 1 to 3 show different estimates of the cost of living of the working class.

TABLE IV. *Index Numbers of the Cost of Living* (1938=100).

	1939	**1940**	**1941**	**1942**	**1943**	**1944**
1. Ministry of Labour Index	101	118	128	128	128	129
2. Wage-earners' index (earlier estimate)	—	120	133	140-145	145-150	—
3. Wage-earners' index (present estimate, 1938 weights)	102.5	119.7	134.9	143.2	147.9	150.1
General Market Price Indices:						
4. 1938 weights	102.3	119.8	136.1	146.7	151.9	154.2
5. Weights in later years	102.3	119.7	134.4	143.8	150.1	152.3
6. Average weights	102.3	119.8	135.3	145.4	151.1	153.4

The earlier estimate of the cost of living of wage-earners agrees very closely with the revised estimate, while the Ministry of Labour index is seen to be much lower than either. The differences between the revised estimate for wage earners (line 3) and the most comparable general market price index (line 4) are also relatively small. This is partly, of course, because the price indices for the main groups were the same in both cases, but the results show that, although the distribution of working-class expenditure is known to be very different from that of the whole community, the difference does not appear to have much effect on the final index.

[1] Cf. BULLETIN, Vol. 4, No. 17, Vol. 5, No. 7, and Vol. 6, No. 10.

[2] *Ministry of Labour Gazette*, December, 1940.

[3] The following is the distribution of expenditure, excluding contributions to national insurance, shown in the Ministry of Labour family budgets (industrial workers):

Food	40.7	Fuel & Light	7.7	Rent	12.9	Household goods	0.8
Drink	0.9	Clothing	9.8	Services	12.3	Other goods	6.5
Tobacco	3.0	Travel	2.7	Furniture	2.7	TOTAL	100.0

The evidence suggests that the White Paper index does not differ significantly from the best available index of the cost of living of wage-earners. It will be assumed, therefore, that for the purpose of estimating changes in real income the index of general market prices, shown in line 6 of Table IV, can be applied to the incomes both of wage earners and of non-wage earners.[1]

None of these price indices makes any allowance for the effects of rationing and shortages in reducing the consumer's freedom of choice.[2] It is not possible to obtain accurate estimates of the effects of rationing, but the reader should bear in mind that, if this factor were taken into account, the indices of real income would be lower, and the estimates of the war burden higher, than are shown below.

4. SUBSIDIES AND THE COST OF LIVING.

Further light on the problem of the cost of living index is provided by information which has been published, showing the effects of subsidies on the prices of foodstuffs.[3] Table V shows the market prices of the main foods which are subsidised and estimates of what the prices would become if subsidies were removed. Detailed information has been provided for two dates, February, 1944 and June, 1945.

It is interesting to estimate what the Ministry of Labour Index of food prices would be, firstly, if there were no subsidies and, secondly, if subsidies were spread evenly over all foodstuffs. The results are shown below, for three dates for which the data are available.[4] The unsubsidised index is calculated from the data in Table V, using the

TABLE V.

FOOD PRICES WITH AND WITHOUT SUBSIDIES.

	February, 1944		*June*, 1945	
	Market Price	*Price without Subsidy*	*Market Price*	*Price without Subsidy*
	s. d.	s. d.	s. d.	s. d.
Bread, per 4 lb.	9	1 2	9	1 1
Flour, per 6 lbs.	1 2¾	1 9¼	1 3	1 9¼
Meat, home-killed, per lb. ...	1 1¾	1 5	1 0¾	1 4½
Meat, imported, per lb. ...	8¼	9¼	†	†
Potatoes, per 7 lb. ...	6¾	10¼	7	10¾
Eggs (large) per doz. ...	2 0	3 9½	2 0	3 6¼
Eggs (small) per doz. ...	1 9	3 6½	1 9	3 3¼
Sugar, (domestic) per lb. ...	4	5½	4	6
Milk, per quart	9	9½	9	10
Cheese, per lb.	1 1	1 3¼	1 1	1 4
Bacon, per lb.	1 10½	1 11	1 10½	1 11
Tea, per lb.	2 10	3 0*	2 10	3 0

* Inferred from the amount of the subsidy.

† Ratio of unsubsidised to subsidised price assumed the same as in Feb., 1944.

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[1] Strictly speaking, the incomes of non-wage earners should be deflated by an index which includes the prices of investment goods. But since savings are not a very large proportion of income, and since the increases in the prices of investment goods during the war have not been very different from those of retail prices, this point can be neglected.

[2] *Cf.* Review of Economic Studies, Vol. X, No. 1, p. 68.

[3] See the statements in Parliament given by the Financial Secretary to the Treasury 2.2.44, and by the Minister of Food 1.6.45.

[4] The calculation for October 1942, is based on the statement made by Mr. E.

same weights as the Ministry of Labour. The corrected index at market prices, assuming even distribution of subsidies, can then be calculated from the unsubsidised index, and the amount spent on subsidies in relation to the total expenditure on food. Thus, for February 1944, the amount spent on food subsidies was 15.3% of the total expenditure on food and 151.5/115.3=131.4. The error, found by comparing the official index with the corrected index, shows the extent to which the application of subsidies is biased in favour of items which are included, or overweighted, in the index. The error is seen to be considerable, amounting to between 8 and 10%.

	Expenditure on Food Subsidies		*Ministry of Labour Food Index (1938=100)*			
	Amount	*% of Total Food Expenditure*	*Actual*	*Unsubsidised*	*Corrected*	*Error*
October, 1942	£127 mm.	9.6%	115.3	138.8	126.6	9.8%
February, 1944	£206 mm.	15.3%	119.6	151.5	131.4	9.9%
June, 1945	£225 mm.	16.8%	121.0	152.5	130.6	7.9%

It must be remembered that the correction applied here does not allow for various foods (such as cakes, fruit and vegetables) which are not represented in the index and which have increased considerably in price.

No doubt the distribution of subsidies is designed to favour the lower income groups, and in this sense is progressive. On the other hand, the incidence of indirect taxes, which are known to fall most heavily on low incomes, is regressive and the yield of indirect taxes is much greater than the amount spent on subsidies. It should not be assumed, therefore, that the increase in the cost of living in recent years has been less for low income groups than for others.

In the case of food, surveys in Oxford which have been conducted since 1941, show the following changes[1] in the minimum cost of a 'human needs' diet (taking the average figure for April and November each year, with 1938 as 100).

Index of Cost of 'Human Needs' Diet.

1938	1941	1942	1943	1944
100	129	131	136	140

It is seen that the increase in cost up to 1943 and 1944 is not less than that of the index of general food prices, shown in Table III.

5. THE DISTRIBUTION OF THE WAR BURDEN.

We proceed, on the basis of the official estimates of the national income of the United Kingdom, given in the White Paper (Cmd. 6623), to estimate the changes between 1938 and 1944 in the net incomes of wage earners and of non-wage earners, and then to estimate the financial "war burden" which has fallen on each of these classes.

Bevin in the House of Commons 15.10.42, that 'if the cost of items included in the cost of living index, in respect of which subsidies are being paid by the Ministry of Food, were to increase by amounts equivalent to those subsidies, the cost of living index would be increased by about 20 points, or 10% over its present level.'

[1] Cf. BULLETIN, Vol. 4, No. 17, and Vol. 7, No. 8.

The results differ from those obtained previously because some of the earlier estimates have since been superseded and on certain points, noted below, the procedure has been changed. A prefatory warning is given that all estimates of national income, and resulting calculations, are bound to be approximate and sometimes even tentative in character.[1]

Estimates are required of the net money income which remains after deducting direct taxes on current income. The net income of wage earners is obtained by deducting income tax payments and contributions to insurance, which are a form of direct taxation, from total wages. For insurance contributions, it is convenient to use the figures given in the White Paper (Table 27) which include voluntary as well as compulsory contributions. Although voluntary contributions should strictly speaking be excluded, the effect on the final results would be negligible. We deduct income tax payments on wages, not the tax liabilities, the difference having effectively disappeared on the introduction of 'pay-as-you-earn.' Table VI shows the estimates of total wages (line 1), direct tax payments (lines 2 and 3) and money wages, net of direct taxes (line 4). Net money wages are also expressed in the form of index numbers (line 5) and after deflating by the index of general market prices (Table IV, line 6), an index is obtained showing changes in the real net income of wage earners (line 6).

As the present analysis is concerned with incomes derived from industry, the pay and allowance of members of the forces and auxiliary services are excluded, and non-wage incomes (line 7) refers to profits (including undistributed profits), interest, rent and salaries (including earnings of shop assistants). To obtain direct tax liabilities on non-wage incomes, it is necessary to deduct, from the total of direct tax liabilities on current income (line 8), the direct tax payments of wage earners (line 9, equal to the sum of lines 2 and 3) and income tax on the pay of forces and auxiliary services, which can only be very roughly estimated (line 10). Death duties and stamps on the transfer of property, which cannot properly be considered a charge on current income, are excluded. Total non-wage incomes net of direct taxes (line 11; equal to line 7, less line 8, plus lines 9 and 10) are then expressed as index numbers (line 12), which are deflated by the index of general market prices in order to obtain an index of the real net income of non-wage earners (line 13).

It has been customary to regard interest on the national debt as a transfer payment and not as part of the net national income. In previous analyses this point of view was accepted and income tax payable in respect of this interest was accordingly deducted from the direct tax liabilities on non-wage incomes. For our purposes it appears to be more logical, however, and more consistent with the treatment

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[6] The present analysis is based, almost entirely, on the official estimates prepared in the Central Statistical Office. No doubt it might be possible to improve on these estimates and, for particular purposes, it might be appropriate to use a definition of national income which is different from that adopted in the White Paper. In order to estimate changes in investment, for instance, an adjustment would be necessary for the valuation of stocks. But for problems connected with the distribution of the national income, this adjustment does not seem to be necessary, cf. BULLETIN, Vol. 5, No. 8, p. 126.

Table VI

ESTIMATES OF WAGES AND NON-WAGE INCOMES (£ MILLION) AND THE DISTRIBUTION OF THE WAR BURDEN.

		1938	1939	1940	1941	1942	1943	1944
1.	Total wages, *gross*	1,735	1,835	2,115	2,419	2,708	2,916	2.930
2.	Income tax payments on wages	2	3	5	28	112	185	235
3.	Insurance contributions	51	53	56	61	65	64	64
4.	Total wages, *net*	1,682	1,779	2,054	2,330	2,531	2,667	2,631
5.	Index of total wages, *net*	100	105.8	122.1	138.5	150.5	158.6	156.4
6.	Index of real wages, *net*	100	103.4	101.9	102.4	103.5	105.0	102.0
7.	Total non-wage incomes, *gross*	2,806	3,011	3,412	3,836	4,041	4,164	4,233
8.	Total Direct tax liabilities (excl. Death Duties, etc.)	478	627	986	1,464	1,765	1,955	2,093
9.	Direct taxes on wages	53	56	61	89	177	249	299
10.	Income tax on Forces (approx.)	—	—	—	10	30	60	90
11.	Total non-wage incomes, *net*	2,381	2,440	2,487	2,471	2,483	2,518	2,529
12.	Index of non-wage incomes, *net*	100	102.5	104.5	103.8	104.3	105.8	106.2
13.	Index of real non-wage incomes, *net*	100	100.2	87.2	76.7	71.7	70.0	69.2
14.	Index of *potential* real income	100	105½	111	117	125	124	120
15.	War Burden on wage-earners (%)		2	8	13	17	16	15
16.	War Burden on non-wage-earners (%)		5	21	35	43	44	42

of other types of interest to regard interest on the national debt as negative government income, and as part of the income of holders of the national debt.[1] In this way, the arbitrary distinction, implicit in the former method, between so-called productive and unproductive loans is avoided. The present analysis, therefore, does not include the adjustment which was previously made.

It remains to estimate the financial war burden on wage earners and others. The conventional method of assessing the cost of the war in terms of the total amounts paid in direct and indirect taxation suffers, on both theoretical and practical grounds, from a number of objections. On the one hand, there are serious pitfalls in estimating the division of indirect taxes between different income groups ; and, on the other hand, the sum of direct and indirect taxes does not (necessarily) represent the whole of the war burden. The method which will be used here, and which avoids these difficulties by making use of a broader concept, was suggested by Mr. Kalecki.

In normal conditions, if there are no great changes in the relative importance of different industries, we should expect the real income, both of wage earners and of non-wage earners, to vary approximately in proportion to changes in the volume of wage-labour in employment, adjusted for changes in productivity. For the share of wages in the national income has remained fairly stable over a long period, and it may be assumed that, before the war, industry was working under more or less constant returns.[2] In this way, we can estimate an index of *potential* real income, showing the increase in real income which might reasonably have been expected under peace-time conditions. If we then compare this with the actual changes in real income of the two classes, the difference, expressed as a percentage of the index of *potential* real income, may be regarded as measuring the financial sacrifice imposed by the war.

An estimate has already been given of changes in the volume of employment (Table I, line 8), the index referring to insured labour, which is taken as synonymous with wage-labour (see p. 233). The results of the censuses of production in 1924 and 1935 provide some idea of the normal rate of increase in productivity under peace-time conditions. Among the industries included in the censuses, average net output per manual operative increased by about 35% during these 11 years.[3] Average weekly hours of work increased, in the same period, by 4½%,[4] so that productivity (net output per man-hour) increased by about 29%, or at an average rate of 2.3% per annum. The industries covered by the censuses provided less than half of the national income and in other industries and services changes in productivity would probably have been much less. For industry as a whole, it seems reasonable to assume a normal rate of increase in productivity of 1½% per annum.

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[1] For a fuller discussion of this problem, see T. Barna : *Redistribution of Incomes through Public Finance*, pp. 32-4. The total net national income is unaffected by the change in treatment.

[2] Even if this assumption were incorrect, the proportionate distribution of the total net output could scarcely be affected.

[3] A. L. Bowley, *Studies in the National Income*, p. 146.

[4] As shown by the Ministry of Labour enquiries.

When the index of the volume of employment is adjusted to allow for a steady increase in productivity, at this assumed rate, an index of *potential* real income is obtained (Table VI, line 14). By comparing this index with the indices of real net income (lines 6 and 13), estimates are obtained of the financial war burden, expressed as percentages of *potential* real income (lines 15 and 16). Since these estimates are very approximate and the concept of a financial war burden is to some extent conjectural, the results need to be interpreted with caution. There is evidence, however, that the burden on wage earners, relative to the burden on non-wage earners, remained fairly constant in the ratio of about 2 : 5, throughout the war. If the effects of rationing had been included (see above), both sets of estimates would be raised and the burden on wage earners, relative to non-wage earners, would also be increased.

6. THE DIVISION OF THE NET NATIONAL PRODUCT.

The White Paper also provides information on the changes that have taken place since 1938 in the share of the net national income (or product) accruing to different factors, before taxation. Payments to the armed forces (and auxiliary services) have, of course, been vastly increased during the war, and since these payments do not belong to industry proper, it is more interesting to observe the changes in distribution, when payments (in cash and kind) to the armed forces are excluded. Table VII, therefore, shows the percentage distribution by factors, both of the total net national income, and of the total, excluding payments to the armed forces.

TABLE VII.

DIVISION OF THE NET NATIONAL INCOME.
(Percentages).

	1938	1939	1940	1941	1942	1943	1944
Rent	8.2	7.8	6.6	5.6	5.1	4.7	4.6
Interest and Profits ...	28.7	29.8	30.7	30.8	30.1	29.0	28.5
Salaries*	23.8	23.0	20.4	19.4	18.3	17.8	17.7
Wages	37.6	36.9	35.8	35.2	35.8	36.1	35.1
Forces	1.7	2.5	6.5	9.0	10.7	12.4	14.1
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
			Excluding Armed Forces.				
Rent	8.4	8.0	7.0	6.1	5.7	5.4	5.4
Interest and Profits ...	29.2	30.6	32.9	33.9	33.7	33.1	33.1
Salaries*	24.2	23.5	21.8	21.3	20.5	20.3	20.6
Wages	38.2	37.9	38,3	38.7	40.1	41.2	40.9
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Including the earnings of shop assistants.

It appears, from the second set of figures, that the shares going to rent, and salaries, have declined, while the shares of interest and profits and of wages have increased. But whereas the share of interest and profits increased between 1938 and 1941 and thereafter slightly declined, that of wages did not increase very much until after 1941.

The rise in the share of wages in the national income (excluding payments to the armed forces) can be explained, as Mr. Kalecki has shown,[1] by the fall in incomes derived from real estate, retail trade and from overseas.

J. L. Nicholson.

THE PLANNING AND CONTROL OF INVESTMENT.

The King's Speech announced the intention of nationalising the Bank of England and "setting up of machinery to provide for the effective planning of investment' 'in order to promote employment and national development.' In a subsequent speech,[2] Mr. Dalton refused to go into details until legislation was introduced in the autumn. But it was the Government's view 'that new investments must continue to be guided in peace as in war by considerations of national interest.' This could not be assured if the 'disorderly and competitive scramble for money' were allowed to return as before the war. 'The competitive scramble drove up interest to a height which was disadvantageous to those who had to meet the cost of borrowed money.' The purpose of the Government was therefore 'to carry out the principle of priorities in the national interest in the allocation of available funds.' For this purpose, 'the present capital control would be put on a permanent basis.' There must be 'a national plan for the use of our national resources in finance no less than in materials and labour.'

On being pressed for additional information by Mr. Churchill, Mr. Dalton consented to give further details and in a written reply, stated ;[3]

> 'The planning of investment has two aspects—the physical and the financial. On the physical side the Government's policy is to secure that the available labour and materials are used in accordance with whatever plans may from time to time be required for the purpose of employment policy and national development. On the financial side, the control of demands on the capital market will, as I stated on Tuesday, be exercised according to the same principles. But there is no intention of compelling anyone to invest his resources in one way rather than another. In particular, the proposed legislation will not provide for the exercise of financial control over the use by business undertakings of their own cash or other existing resources.'

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[1] Cf. the article by M. Kalecki, Bulletin, Vol. 6, No. 9, pp. 137-144, where a much fuller analysis of this problem may be found.

[2] Debate on the Address. Fourth Day, 21st August, 1945. Hansard, Vol. 413, No. 8, Cols. 499-503.

[3] Hansard. 23rd August, 1945. Vol. 413, No. 10, Cols. 836-7.

> 'As regards relations between banks and their customers, I do not contemplate any substantial change in the present arrangements. Borrowing from banks is, in certain circumstances, already subject to the capital issues control, and the banks have already been asked by my predecessor to observe the same principles in regard to the granting of advances as apply to the grant of Treasury consent to new issues.'

The basic attitude expressed in these statements undoubtedly constitutes a very important advance in official economic thought over the analysis given in the White Paper on employment policy. In that document the old Treasury principle was abandoned. It was recognised that in the causation of economic fluctuations the instability of private investment represented a peculiarly disturbing factor. The White Paper, however, accepted this fact and did not propose to deal directly with private investment except by moral suasion and possibly certain tax measures.

The 'provision of an effective planning of investment' to ensure stability at full and efficient employment is in principle a much more hopeful approach. The problem is whether the practical method apparently envisaged is in fact likely to implement successfully the task which the Government set itself.

1. THE PLACE OF CONTROLLING INVESTMENT IN THE GENERAL ECONOMIC POLICY.

The Government's task is obviously twofold. It is necessary, first, to ensure that effective demand should be *sufficient* not only to employ the productive capacity of the country, but to employ it in the national interest. Social and not private returns must be the basis of the direction of the economic process. This is by far the most important aim in the long run. Secondly, provision will have to be made—as long as private enterprise continues to play an important role in the economic system—to prevent the expansionist tension created by the positive measures from deteriorating into a boom or inflation. In other words the Government will have to take care that the private and public sectors remain attuned to the basic plan.

This particular problem did not disturb the authors of the White Paper as they implicitly assumed that *private* demand was always preferable to *public* purposes (except for what might be called the "normal" function of the State, *e.g.*, defence, education, etc.). Once this primacy of private demand is not admitted, machinery has to be devised to ensure that stability can be maintained by postponing not merely public plans but also regulating the timing of private projects.

The first, *positive*, aspect of the problem is perhaps not very acute in the short run (especially if a favourable agreement cannot be arrived at with America and other creditor nations on the continuation of supplies and the repayment of sterling balances), as the extreme shortages will only disappear slowly and, with potential demand far exceeding supplies, mass unemployment does not threaten on account of internal reasons: thus, in any case controls over the physical factors of production must continue. It would, however, be unfortunate if preoccupation with financial controls were to obscure the more basic problems.

2. THE LIMITATION OF THE PLAN: THE RELATIONSHIP BETWEEN FINANCIAL AND PHYSICAL CONTROL.

The intention behind the proposal to establish a 'National Investment Board' is clear. It is to serve not merely by diverting a given amount of savings into socially useful investment, but has the task of assembling all data on proposed private and public investment. On the basis of a census of productive capacity and an estimate of the likely consumption and savings it is then charged with formulating plans to ensure the maintenance of stable demand.

It is when it comes to the detailed working of the proposed institution and its relation with the other Departments and organs of the Government responsible for economic matters, that the protagonists of the plan are suddenly at a loss to give a precise account of their proposals. Is the Board to control the policy of the Bank of England and the Clearing Banks? If it did not, how could it influence the rate of interest or even prevent general speculative booms on the Stock Exchange? Can it control the rhythm of reinvestment without physical controls, and if it cannot, how are those physical controls to be co-ordinated with it? As far as stimulating demand is concerned, is the Board to act merely as an agent of the Government? Should it obtain capital by issuing its own marketable and safe securities, and, having thus obtained capital at a more favourable rate than private firms (or even Local Authorities) could secure it, put it at the disposal of projects which would not otherwise be practicable without either subsidy or specific Government guarantees?[1] It is, however, impossible by this method alone to maintain investment in the longer run.[2]

An analysis of the inter-war period, moreover, does not substantiate the charge that the banking system or the capital market was unduly conservative. On the contrary, ephemeral optimism encouraged foolish loans. It would be contrary to all reason to encourage investment in "unprofitable" uses by forcing either the Banks or the Board to finance them irrespective of return. If any subsidy is to be granted for any purpose (and there are good grounds for subsidies as social and private returns may and do show marked divergence) they should be granted by the Government after exhaustive study on the basis of social priority, and not in a hole-and-corner manner. This approach, moreover, ignores the fact that the volume of saving itself depends to a large extent on general Government policy and that the profitability or otherwise of certain projects will be considerably influenced by actions of the Government Departments.

However attractive the device may appear to take 'out of politics' the management of certain specific industries or institutions, etc., which pass into public ownership by entrusting them to an (independent) Board, it can surely not be applied to investment as such. If a National Investment Board were to be effective, it would have to usurp most if not all the economic functions of the Government as a whole. In the transition period, moreover, this 'global' approach to economic stabilisation is likely to involve a considerable amount of waste through unemployment or premature transfer of productive factors from one use to another. The war has resulted in the emergence of vast excess capacity in certain industrial fields. If a global approach is adopted, and if detailed planning and control is not used, local or sectional unemployment will emerge on the one hand and quasi-inflationary tension will make itself felt in other sectors. The equation of savings and investment without detailed plans is by no means a sufficient guarantee that economic stability can and will be maintained. Only a central organ of the Government can undertake this task with the whole apparatus of Government.

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[1] A scheme of this type has been tried out in practice when a Treasury guaranteed finance company was formed in order to provide the capital for the reorganisation and extension of London transport facilities.

[2] Cf. Kalecki, *Three Ways to Full Employment*.

The troubles of the transitional period in which acute shortages will continue, will no doubt be overcome. We shall then emerge, as America has already emerged, into a position in which the current distribution of income would, if full employment was maintained, yield far too large a volume of savings to be dealt with by private investment. If then the supreme organ of economic planning was an Investment Board, there would probably ensue a tendency to favour stimulating investments rather than a redistribution of income as a solution of the problem. In any case this is no issue to be decided by an "unpolitical" or "expert body."

3. THE FINANCIAL LIMITS OF CONTROLLING NEW ISSUES.

It seems unlikely that with the methods proposed by Mr. Dalton, as amended by his written statement, investment could in fact be effectively controlled. According to the White Paper on the Sources of War Finance (Cmd. 6520), gross investment in 1938 in fixed capital (excluding certain public investments) amounted to £690 million. Roughly half, *i.e.*, £340 million, of this was financed out of depreciation and obsolescence allowances. This represented much the most important engine of technical progress.[1] Undistributed profits (including those of individual traders, farmers, etc.), moreover, amounted to £170 million in the same year. This leaves only £180 million of net investment to be financed through the capital market, banks, building societies, etc., *i.e.* through intermediaries. By controlling the financial apparatus thus less than 25% of total investment can be controlled.

It must be borne in mind, however, that in that year no less than £255 million were newly invested in buildings, and it is probable that private housebuilding amounted to rather more than the £180 million which remain unaccounted for. If local authority finance, which is already under control, is included, there is certainly no margin left for net new investment in industry which could not have been financed by means which would wholly escape control. In point of fact we know that the banks throughout the inter-war period played a relatively minor role in the finance of industry, even so far as working capital is concerned : by far the largest part of their loans was for financial purposes or to individual customers not in their capacity as producers or traders. It is clear in any case that undistributed profits amounted to a multiple of any net investment of an industrial character whatever, and were in all likelihood used for financial purposes including participation in new or existing companies.

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[1] Gross investment in plant amounted to £150 million, net investment to only £20 million. Thus, not less than 85% of industrial re-equipment was financed out of depreciation allowances. In the U.S.A. productivity per head increased by some 30% between 1929 and 1940. During this period net investment was negligible. Re-equipment financed out of depreciation and obsolescence allowances, however, has been at a very high level throughout this period.

Turning to capital issues proper, their total was £130.7 million in 1938, and even in the peak year of 1936 they did not amount to more than £239.4 million. Out of this only £54.7 million went for so-called industrial purposes, with an additional £22 million to public utilities (£109.4 and £56.2 million respectively in 1936). Private placings of securities through the Stock Exchange amounted to £22 million against £76 million in 1936. If we analyse these figures, however, it appears that by far the largest part of these funds were used for non-industrial purposes, *i.e.* cinemas, buildings, shops. Only a smaller proportion of the total represented capital for new development, the rest was mainly absorbed for the cost of the issue, the conversion and repayment of loans, or the acquisition of existing assets.

In the meantime, moreover, industry has acquired large liquid reserves through the long-continued disinvestment in the war, and in the E.P.T. credit reserve it has at its disposal, upwards of £500 million. As it is not possible to make the repayment of these E.P.T. reserves dependent on the use to which they are put, the conclusion must seem inescapable that without direct controls a sufficient power over investment cannot possibly be obtained.

Nor is it possible to prevent a speculative boom of the Stock Exchanges by merely controlling *new* issues. It is speculation in existing shares which tends to render borrowing on bonds difficult—unless the banking system adopts a discriminating credit policy or permits the necessary expansion of the monetary circulation. The further repercussions of a Stock Exchange boom can only be prevented by a careful co-ordination of physical control and banking policy. This is not to say that new issues should not be controlled. But the subordinate role of this control and of the institution or organ exercising it must be emphasised.

The proposed financial control is, from the point of view of economic planning and the elimination of business fluctuations, wholly insufficient. If, however, control of certain key raw materials or other factors of production is retained it becomes largely subsidiary. Elimination of waste and the full use of existing productive factors, moreover, renders planning in detail necessary. If, however, physical controls continue no-one will wish to borrow or make an issue on the capital market which he cannot use for real investment.

4. THE POSSIBLE FUNCTIONS OF A NATIONAL INVESTMENT BOARD.

We have seen that the current proposals for the establishment of a National Investment Board can be considered as an attempt to implement the approach to economic stability adopted by the late Coalition Government and outlined in the White Paper on Employment Policy. This approach is characterised by the tacit acceptance of the recurrence of business cycles and would limit the intervention of the State to exceptional periods of slump. We have seen that even so far as this limited aim is concerned the method is insufficient.

In this context we cannot discuss the shortcomings of the attitude underlying this approach to the solution of the economic problem.[1] In Mr. Kalecki's words, this project cannot present 'a programme for lasting full employment, which must be based either on a long-run budget deficit policy or on the redistribution of incomes.' But neither budget deficits nor redistributive taxation can be managed by the creation of a National Investment Board. Where it could play a—limited—role is in stimulating private investment, a method against which formidable objections have been raised,[2] but which might play a subordinate role in a programme of full employment.

The stimulus to private investment can be achieved (*a*) by depressing the rate of interest, (*b*) by subsidies, which can be either indirect, i.e. a withdrawal of obsolete plant to re-create the profitability of new investment, or direct payments, (*c*) by decreasing the borrowers' risk by methods which have been discussed in a previous article, (*d*) by a reorganisation of the capital market to eliminate some of its imperfections, and (*e*) finally, by undertaking investment though it is consciously realised that the capital will be lost (e.g. by not being able to cover the cost of borrowing).

It stands to reason that the grant of subsidies or the organisation of compensation cannot be entrusted to the proposed Board. The Investment Board, even in its more ambitious forms, could undertake a supervision of capital issues in order to prevent speculative financial issues and fraud. In the main this has hitherto been undertaken by the Stock Exchange Committee, the Bank of England and the Capital Issues Committee respectively. There is no objection against a centralisation of these functions. The Bank of England, however, must remain in charge of Banking Policy. It must be realised that a control of new issues (as contrasted with Government Guarantees, etc.) certainly cannot render borrowing 'cheaper.'

But an Investment Board might help in decreasing the *imperfection of the capital market* for new securities and thus incidentally narrow the lender's *risk premium.* This it could achieve by borrowing, presumably with Treasury guarantee, and using the capital obtained to furnish funds at lower rates of interest to industry than would otherwise be possible. These two functions embrace (but of course transcend) the functions which the two finance companies recently established were to play. The first of these, the Finance Corporation for Industry Ltd., was to have found capital for industrial reorganisation. If the magnitude of the amounts involved is borne in mind it will be realised that without Government guarantee a successful accomplishment of its task cannot be hoped for. The normal commercial risk in reorganising whole branches of industry (much as even that risk is, because of its sharply increasing nature) is far outweighed in importance by the political and social risks and uncertainties. The lender's risk premium would, however, endanger the success of the operation from the borrower's point of view. The interposition of a State organ is desirable. Much more important, however (so far as the establishment of new industries is concerned) would be the provision of factory buildings and common services for a rent covering bare cost only.[1]

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[1] Cf. *Economics of Full Employment*; Sir William Beveridge, *Full Employment in a Free Society*, especially the Postscript; 'The White Paper on Employment Policy' by M. Kalecki, BULLETIN, Vol. 6, p. 131.

[2] Institute of Statistics *op. cit.*, especially Mr. Kalecki's and Mr. Schumacher's essays.

The second of the new corporations was to have provided capital for small business. It supposes that the Clearing Banks, which will search for profitable outlets for their funds, will not retain most if not all hopeful business for themselves, leaving for this institution doubtful ventures and 'small' capital issues. The experience with the Agricultural Mortgage Corporation is not encouraging. A well-organised Board, however, could initiate development in close liaison with Government research stations rather than wait passively for business to be passed on to it. From both points of view its establishment, provided its personnel is adequate, would represent an important advance over the previous scheme.

A third task for which institutions mainly financial in character could be used is the finance of private investment out of State revenue, a proposal based on the admitted insufficiency of investment in this country in the period between the wars. Its activities in supervising general issues and keeping in touch with financial institutions on the one hand, and with scientific research on the other, will provide it with the expert knowledge required for this specific task. It should, however, not be the controlling authority for the co-ordination of public investment which, as it involves a question of deciding between social priorities, must again be left to the Cabinet, advised by an expert staff.

It would be very undesirable if the Board were to be used for the purpose of granting hidden subsidies through consciously undertaking 'unprofitable' investment. Whether subsidies should take the form of interest subsidies for approved projects, *i.e.* a conscious lowering of the rate of interest without increasing liquidity and without creating capital gains, or direct subsidies for specially selected projects, is another question which need not be discussed here. In any case the granting of subsidies must be handled by other Government Departments.

The same applies to the conscious stimulation of technical research and invention by the Government.[2] The personnel of the National

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[1] Cf. my article on 'Taxation, Risk-Bearing and Investment.' BULLETIN, Vol. 7, No. 11-12.

[2] Cf. my article on 'The Finance of Scientific and Applied Research.' BULLETIN, Vol. 6, p. 1.

Investment Board, drawn mainly from financial and legal circles connected with the existing financial machine, cannot be a suitable institution for such duties. As a matter of principle, institutions should be entrusted with tasks for which they are fitted, and their co-ordination should be done so as to ease inter-departmental problems, *i.e.* on the basis of convenience. There is no need to be dogmatic in order to see the limitations and possibilities for an institution such as the National Investment Board.

A central co-ordination of the planning of economic development must be left to a co-ordinating agency advising the highest ministerial levels, as was developed during the war. A long-term plan can only be evolved on this basis. An organ which has no power to influence structural reorganisation, control location, etc., cannot be burdened with responsibility for general economic stability.

5. CONCLUSION.

We may conclude that the proposal to establish a National Investment Board represents an advance beyond the attitude expressed in the White Paper on Employment Policy. Properly organised, a National Investment Board can: (*a*) play a limited role in preventing fraud or speculative excesses, on the lines of the Securities and Exchange Commission in America; (*b*) it can lessen the imperfection of the capital market for new securities and thereby lessen the lender's risk and facilitate private investment; (*c*) it could be used as the instrument of the Government for the finance and encouragement of new, and the reorganisation of older industries. In these activities it will represent one of the instruments of a co-ordinated Government policy to achieve stable and efficient full employment by planning consumption and investment. Because of its personnel and its relation to other Government Departments it cannot be expected to fulfil a role of the main co-ordinator of planning investment as it cannot guide consumption. That task must be left to the Government itself acting on the basis of plans put forward by the respective Departments and co-ordinated by a specifically selected central expert staff.

T. BALOGH.